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## **Flexible Tools Keep Neighborhood Business Districts Healthy**

*In Minneapolis, neighborhood business associations can access a flexible array of tools, provided by the city, to keep businesses thriving and commercial corridors vibrant.*

*By Louise Anderson*

Minneapolis takes the health of its neighborhoods and small businesses seriously, and with good reason. Over 40 percent of the city's jobs and 49 percent of local sales taxes come from neighborhood business districts – but their value lies in much more than jobs and tax revenues.

"Neighborhood business districts are the front door to our 81 neighborhoods and the key to their individual identities," said Cathy Polasky, director of Economic Policy and Development for the City of Minneapolis. "Most have a barbershop, a hardware store, a restaurant. That's really what Minneapolitans value, places they can walk to."

Thriving business districts are part of what makes Minneapolis neighborhoods great places to live. But in the mid-2000s, many small businesses in these districts were struggling due to competition from big box retailers, online sales and other factors. In response, the city launched the Great Streets Neighborhood Business District Program in 2007 to support these commercial districts and the businesses at their heart.

"This was a way to tilt the scale toward neighborhood retailers and spur private investment," said Polasky.

### **A flexible toolkit**

Great Streets targets commercial areas (corridors, nodes, transit station areas and activity centers) that could use a boost. Based on extensive research into successful business district strategies, the program relies on a combination of tools to revitalize and maintain these commercial areas. The Community Planning and Economic Development department, of which Polasky is part, spearheads the program.

"We designed the program so each individual business district could tailor it to their specific needs," Polasky said. "We wanted them to be able to use the program to build on their unique qualities."

The program has four main components.

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- **Façade improvement grants:** The façade program makes matching grants (up to \$7,500) for improvement in highly visible places. As of last October, 228 businesses had tapped the program; total investment from the city of \$780,000 has spurred \$2.35 million in private investment.

An added bonus is the ripple effect the program has had. Frequently, after a business undergoes a façade improvement, “neighboring businesses decided to make façade improvements on their own,” Polasky said. “It has caused whole intersections to change and whole business districts to take on a more vibrant appearance.”

- **Business district support:** This component of the program makes grants of up to \$50,000 to business associations, which they can use in a variety of ways. Typical uses include business recruitment (to fill vacant retail spaces), marketing and promotion (e.g., special events, district branding, loyalty cards, etc.).
- **Business technical assistance:** Partner organizations receive city funds to conduct one-to-one business consulting and classroom training on business planning, regulatory issues, financial issues and more.

The technical assistance component has been a highly effective business retention and expansion tool. For example, a tortilla manufacturer, La Perla, opened a second facility just as corn prices tripled; suffering serious losses, the company was in jeopardy of going under. One of the local partners that receive technical assistance funds from the city, the Latino Economic Development Center, helped La Perla make changes that brought it back into the black, saving 40 jobs.

Polasky believes that partnering with community-based nonprofits to deliver “more culturally relevant and specific” services to neighborhood businesses has been more effective than having city staff or an outside group do the advising.

- **Loans for businesses and for real estate development:** The city will make a 2 percent loan, up to \$75,000, to a small business, which then is paired with a market-rate bank loan. The bank underwrites and services the loans, and the borrower gets the benefit of a blended rate.

“Banks are continuing to underwrite to their standards, but if a loan is on the margin and the city is in there with a lower interest rate, it gives the bank the confidence to make the loan,” Polasky said. An impressive 98 percent of loans are repaid.

Between 2007 and 2011, 83 of these loans (totaling \$6.2 million) were made from this revolving loan fund. The loans leveraged private bank financing of \$43.4 million and allowed businesses to create 390 new permanent jobs.

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Real estate development loans typically are made when gap financing is needed for a catalytic project in a struggling district. Polasky cited the example of Seward Co-op: in a struggling neighborhood, the city added a subordinate loan to the maximum the bank would lend, which enabled the deal to happen.

“We don’t make a lot of these loans, but when it makes a catalytic change in a neighborhood, the ripple effects can be pretty amazing,” she said. In the case of the Seward Co-op, many of the Somali residents of that neighborhood gained employment and experience working at the grocery, then started their own businesses in the district. The same co-op soon will open a second location in another challenged part of the city.

### **Elements of success**

In many cases, organizations are combining tools and strategies for maximum impact. For example, at one intersection, the city provided a real estate development gap financing loan for the Chicago Avenue Fire Arts Center; supported a real estate and market analysis to guide business recruitment efforts through the business district support program; and made façade improvement grants for eight properties, resulting in highly visible improvements. These investments are helping to change this neighborhood commercial node in positive ways.

The community – especially Great Street participants, including business associations, community development corporations, other organizations focused on business district vitality, property owners, developers, and businesses – embraced the program from the start. Polasky attributes its early successes to pent-up demand for the services.

However, it did take some convincing to get the program funded. Not only was it new to Minneapolis, but it didn’t have a track record elsewhere, either, that staff could point to. “It was important for us to demonstrate an impact to city council members early on,” Polasky said, “which we were able to do, thus creating a board of champions for ourselves.”

Polasky believes that ultimately, it’s the partnership between the city and neighborhood stakeholders that makes the program work, as well as the flexibility and variety of tools available to help businesses at all stages, from startup to expansion.

Communities of any size that are looking to implement a neighborhood revitalization program can gain other takeaways from Minneapolis’s experience with Great Streets:

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- **Include neighborhood partners in the program design.** Reach out early to the business associations, local economic development groups, community development corporations and other business organizations to bring them into the design of the program. It has to work for them.
- **If you're going to lend money, technical assistance is essential.** City staff realized that technical assistance was needed not just for business startups but for established businesses as well, and on an ongoing basis. Great Streets has expanded its technical assistance to help businesses with whatever issues they are facing.
- **Design the program with flexibility.** The business associations knew better than anyone else what was needed in their neighborhoods, so maximum flexibility was designed into the menu of assistance they could access.
- **Leverage peer-to-peer learning.** Great Streets set up a speaker series in which business associations and business owners share information and best practices on topics such as business recruitment and social media. It's a good way to facilitate networking and provide cheap advice. Outside experts come in, too; a Google representative conducted a three-part series on creating a website and search engine optimization. The networking has been a big benefit; business associations that knew of each other, but had never talked, get to know and learn from each other.
- **Get good "before" and "after" pictures.** Nothing tells a story like a picture. Great Streets neglected to get these photos at first, but now, submitting good "before" and "after" pictures is a condition of receiving a façade improvement grant.

*The Great Streets program won a 2012 IEDC Excellence in Economic Development award in the Neighborhood Development category.*